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No. 763

IN THE

# Supreme Court of the United States

October Term, 1949

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DE BOTHEZAT IMPELLER COMPANY, INC.,

*Petitioner,*

*v.*

AMERICAN MACHINE AND METALS, INC.,

*Respondent.*

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## BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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## BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Defendant seeks review of a unanimous judgment (A. N. HAND, CHASE and CLARK, *C.JJ.*) affirming a declaratory judgment (COXE, *D.J.*) construing a contract between these two parties.

### No Reason Exists to Invoke the Jurisdiction of This Court

No constitutional or Federal question is involved. No important question of local law is presented. The decision concerns only these two private litigants.

The main issue is over the construction of a long contract executed in 1934. The contract expressly gives respondent an absolute right to terminate it on six months' notice. The question is whether, after termination, the

contract requires respondent to go out of the fan business for all time.

The contract was not a standard form in general use. It was specially prepared by the parties' counsel over months of negotiations. Its interpretation depends, basically, on its own particular language. The courts below, construing the contract in light of its detailed provisions, agreed that petitioner's specious arguments were without merit. That eminently correct conclusion involves no question of general interest.

Even less consequential is the subsidiary issue. Claiming that certain breaches occurred in the past, petitioner asked, in four counterclaims also labelled as "defenses," that respondent be compelled to pay stated damages and, in addition, be visited with a special, novel penalty. It argued that the contract should be rewritten to deprive respondent of the right of termination or of the right to make, after termination, unpatented goods which all the world is free to handle.

The courts below—following New York law, which concededly is controlling here—agreed that this astonishing claim finds no basis in the local law. No case cited by petitioner lends any support to its claim, which flies in the face of numerous local decisions. The point is utterly lacking both in merit and in general importance.

Review on writ of certiorari "will be granted only where there are *special* and *important* reasons therefor." Rule 38, par. 58.* Here there is no reason whatever for granting the writ—much less a "special" or "important" reason.

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* Italics are ours throughout unless otherwise stated.

## Opinions Below

The opinion of the Court of Appeals (628-645)* is reported, 180 F. 2d 342. The trial court wrote no opinion but voiced his views during argument (377-420). The earlier opinion of the District Court, holding petitioner's four "defenses" insufficient (70-80), is reported, 82 F. Supp. 556.

## Statement of Case

### The Parties' Situation in 1934

Prior to the contract petitioner (sometimes called "De Bothezat") made and sold fans and ventilating equipment in part of a loft building in New York City (F7, 608).

Petitioner was practically unknown in the business (453). Its enterprise was a failure. From 1929 its gross sales—never over $174,000 a year—declined steadily, falling to only $58,000 in 1933 (F8, 608; 174). Its net loss rose to over $100,000 (F8, 608; 485).

When the contract was made, petitioner's operations had virtually ceased. It had only 6 unfinished orders on hand (35). It had long had only a skeleton force (F16, 610-611; 270).

While petitioner had some equipment and machinery, "in very bad shape" (279), its principal asset consisted

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* Unless otherwise stated, references in parentheses are to pages of the record. When preceded by F, they designate findings of the trial court; thus (F24, 613) denotes Finding 24, page 613 of the record.

of certain patents and patent applications (on which patents later issued), which we shall call the "DeBothezat patents." Actually they were quite limited in scope (148-150, 261-262), but petitioner thought them unequalled (Ex. V, not printed). Its products embodied, or were supposed to embody, these patented devices (F7, 608; 8, 97).

Despite intimations to the contrary (*e.g.*, Pet. Br., pp. 3, 6), respondent's organization was no stranger to the fan business in 1934. Its immediate predecessor was actively engaged in the fan business until 1931. Its subsidiaries were making and selling fans when the contract was signed (F6, 607; 282-283, 355-358).

**The Contract of April 3, 1934**

Under the contract (7-52) Metals (respondent) did *not* buy—or agree to buy—"the DeBothezat fan business on the installment plan" (Pet. Br., p. 6.). In fact, the "business" is not even mentioned in the agreement, doubtless because it was practically extinct.

The contract begins by referring to the DeBothezat patents (8). The very first paragraph provides for their qualified conveyance to Metals "subject to the conditions of this agreement" (9). One condition is that Metals must reconvey them on termination (19).

Certain "plant and equipment" was also assigned to Metals (12), with a covenant to reconvey it, if still in existence, on termination (19-20). Other "plant and equipment" was leased to Metals, with an option to buy it for $1 after July 1939 (13-14).

In exchange, Metals agreed among other things to pay petitioner royalties.[1] Royalties are paid not on profits but "net sales" (15-16). Petitioner bears no part of Metals' expenses or losses. Royalties have long exceeded the guaranteed annual minimum of $5,000. In recent years they have averaged about $30,000 annually. By the end of January 1949, they had aggregated $250,000 (F30, 615; 428).

**Metals' Absolute Right to Terminate**

Paragraph Tenth of the contract gives Metals the absolute right to terminate after the first year (F4, 607; 18-19):

> 'One year after the date hereof or at any time thereafter, Metals Corporation may give the De-Bothezat Company notice, in the manner hereinafter provided, of its intention to terminate this agreement, and six (6) months after the notice shall have been so given, this agreement . . . shall thereupon terminate and Metals Corporation shall not be liable for any payment under the provisions of Paragraph Eighth hereof [the royalty provisions] accruing after the period ending upon such termination."

Elaborate provisions govern the parties' rights after termination. As just seen, even though Metals makes articles on which royalties would formerly have been due, it has no contractual obligation to pay petitioner anything. In addition:

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[1] Although petitioner dislikes the word "royalties," the first amendment to the contract (prepared by petitioner in 1936) refers to the "minimum royalty" and the "royalty payments" (36). Petitioner's representatives repeatedly referred to "royalties" (214, 472, 572, 573, 594).

1. On termination Metals reconveys the DeBothezat patents (19).

2. For one year petitioner may require Metals (on paying its expenses) to assign patents or patent applications "covering any new inventions or new discoveries or improvements in the manufacture of the Products" (19). There have been several such patents (F31, 616).

3. On termination Metals returns "such of the plant and equipment" assigned to it "as it may then have on hand" (19-20).

4. For a year after termination petitioner may examine and copy Metals' "books and records" (20).

5. Within four months after termination Metals must pay all royalties accruing before termination (20).

6. After termination Metals' right to use the DeBothezat name ceases (23).

Thus on termination Metals gives up certain rights and retains all others. It keeps its factory, raw materials, work in process and orders. It keeps all new machinery and equipment it has acquired, its good will, its own name and all trademarks and trade names it has developed.

Likewise Metals retains after termination the right—which it always had—to make and sell fans not infringing outstanding patents.

**The Proceedings Below**

The Court of Appeals has outlined the history of the litigation (631-632). While the action continued, petitioner received about $3,000 in royalties each month. It used every means, therefore, to avoid and delay an adjudication. So successful were its tactics that $70,000 in royalties were paid during pendency of the action down to early 1949 (F30, 615; 428-430).

At the trial petitioner contended that the contract was "perfectly clear" (88), "clear on its face" (158), and unambiguous (168). Nonetheless it submitted parol evidence on its claim that the parties had *orally* agreed that Metals would not stay in the fan business if it terminated the contract. This evidence was offered to show that the contract should be construed as petitioner claims or else reformed so to provide.

Actually the parol evidence made it doubly plain that the contract does not mean what petitioner claims. The contract itself, however, clearly shows that Metals need not quit the fan business after termination. Neither court below found it necessary, therefore, to fall back on the parol evidence to support its interpretation of the agreement.

One might suppose from petitioner's brief that the parol evidence was not passed upon. The fact is otherwise.

Most of the trial was devoted to taking the parol evidence, pro and con. The witnesses' testimony was conflicting. No shred of documentary evidence supported petitioner's claim. On the contrary, between December 1933 and April 4, 1934, seven drafts of the proposed contract were prepared by the parties' lawyers (F13-21, 609-612),

but none—not even the four drafts of petitioner's counsel —contained any reference to the supposed oral agreement (F25, 613). At one time, indeed, petitioner's lawyer (and vice-president) suggested that Metals make such an agreement, but the suggestion was spurned (F22, 612; 554-555).

During oral argument it was apparent that the trial court did not credit petitioner's story. At the last minute, therefore, petitioner argued that the court should simply omit findings on the issues raised by the parol evidence. Of course the judge rejected that suggestion (417).

There are, in fact, voluminous findings on the parol evidence (F10-28, 608-615; F36, 618). The court flatly found that no agreement or representation was ever made—either before or after the contract was executed—that Metals would not make or sell fans after termination (F22, 24-25, 28, 36; 612-614; 618). Thus petitioner's parol evidence was considered and repudiated.

Petitioner's main brief in the Court of Appeals again raised the claim of an oral agreement. But its reply brief expressly withdrew the reformation claim (633). On oral argument, its counsel asked the court to disregard those parts of Metals' brief dealing with the parol evidence, and the reformation issue was again withdrawn. Accordingly, as the Court of Appeals said, "we shall say no more as to it" (633).

## POINT I

**The contract plainly does not prevent Metals, after termination, from making fans which do not infringe valid patents.**

The Court of Appeals discussed petitioner's tenuous arguments so fully (633-641) that only a few points need be added.

1. Had no contract been made, Metals would have been free to make any unpatented fans it wished. Once a DeBothezat patent expired, moreover, Metals would have been entitled to make the fans formerly covered thereby, for the patent laws "dedicate to all the public the ideas and inventions embodied in an expired patent." *Scott Paper Co.* v. *Marcalus Mfg. Co., Inc.*, 326 U. S. 249, 256.

What petitioner argues, therefore, is that after termination Metals is worse off than if it had never made the contract. Metals is supposed to have foreclosed itself from making any fans whatever except under the contract—to have surrendered, for all time, rights which the whole world enjoys, and which Metals would have had if the contract had never been made.

Such a sweeping restraint on Metals' freedom to compete would be so extraordinary (to say nothing of its illegality) that one would naturally expect it to be expressed in the plainest language. Business men represented by experienced counsel do not leave such an onerous restriction to fine-spun argument.

2. Particularly is that so because any competent lawyer would know that no such restriction would exist in the ab-

sence of an express covenant. For it has long been settled law that all disabilities arising out of a patent license or agreement disappear when the contract ends.

When the contract is over, the former licensee or assignee will not be enjoined from making the self-same goods as before, or compelled to pay for doing so, as long as he infringes no patent. That is true whether he terminates the contract himself,[2] or it is forfeited for his breach,[3] or it ends in some other way.[4]

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[2] See, *e.g.*, *Antisdel* v. *Chicago Hotel Cabinet Co.*, 89 Fed. 308, 311-312 (7 Cir.), modified on rehearing, 90 Fed. 828; *Stimpson Computing Scale Co.* v. *W. F. Stimpson Co.*, 104 Fed. 893, 895 (6 Cir.); *Bituminous Products Co.* v. *Headley Good Roads Co.*, 2 F. 2d 83, 86, affd. on opinion below, 14 F. 2d 607 (3 Cir.); *Demco, Inc.* v. *Doughnut Mach. Corp.*, 62 F. 2d 23, 26 (4 Cir.), cert. den. 288 U. S. 605; *Miehle Printing Press & Mfg. Co.* v. *Publication Corp.*, 166 F. 2d 615, 618 (7 Cir.); *Blain* v. *Sullivan-Waldron Products Co.*, 78 F. Supp. 661, 662, affd. on opinion below, 172 F. 2d 221 (3 Cir.); *Howe* v. *Atwood*, 47 F. Supp. 979, 990; *Dutchess Tool Co.* v. *Kolb*, 44 N. Y. App. Div. 624; *Crossley* v. *Dixon*, 10 H. L. Cas. 293, 308; *Redges* v. *Mulliner*, 10 R. P. C. 21.

[3] See, *e.g.*, *Dueber Watch-Case Mfg. Co.* v. *Robbins*, 75 Fed. 17, 26 (6 Cir.); *Eskimo Pie Corp.* v. *National Ice Cream Co.*, 26 F. 2d 901, 902 (6 Cir.); *General Motors Corp.* v. *Rubsam Corp.*, 65 F. 2d 217, 222-223 (6 Cir.), cert. den. 290 U. S. 688; *N. S. W. Co.* v. *Wholesale Lumber & Millwork, Inc.*, 123 F. 2d 38, 41 (6 Cir.); *Pelham* v. *Edelmeyer*, 15 Fed. 262, 264 (C. C. S. D. N. Y.); *Hyatt* v. *Ingalls*, 124 N. Y. 93, 105; *Mark* v. *Hyatt*, 135 N. Y. 306, 309; *Saltus* v. *Belford Co.*, 133 N. Y. 499, 504; *Henderson* v. *Dougherty*, 95 N. Y. App. Div. 346, 351-352; *Schalkenbach* v. *National Ventilating Co.*, 129 N. Y. App. Div. 389, 393-394; *Electric Regulator Mfg. Corp.* v. *American Mechanical Laboratories, Inc.*, 225 N. Y. App. Div. 37; *DeMille Co.* v. *Casey*, 121 N. Y. Misc. 78, 86-88.

[4] See, *e.g.*, *Union Switch & Signal Co.* v. *Johnson*, 72 Fed. 147, 152 (3 Cir.); *International Burr Corp.* v. *Wood Grinding Service, Inc.*, 34 F. 2d 905, 907 (2 Cir.); *Paine & Williams Co.* v. *Baldwin Co.*, 113 F. 2d 840 (6 Cir.); *Measurements Corp.* v. *Ferris Instrument Corp.*, 159 F. 2d 590, 593 (3 Cir.); *Brusie* v. *Peck Brothers & Co.*, 135 N. Y. 622, 625-626; *Denise* v. *Swett*, 142 N. Y. 602, 605.

Clear, unequivocal language must therefore be used to deprive a contracting party of his right, after termination, freely to make goods infringing no valid patent.[5] Of course that right persists after the contract ends, unless it is expressly abridged. To argue (Pet. Br., pp. 8, 13) that the right is lost unless expressly preserved is frivolous. It would be just as unsound to argue that, because petitioner's right to make unpatented fans after termination is not expressly preserved, it may not make such fans when the contract ends.

3. Indeed, when a party's right to compete was to be restricted after termination of the contractual relationship, this very agreement said so unequivocally.

The contract obliged Metals to employ for a year Dr. DeBothezat (petitioner's president and the inventor of the DeBothezat patents) under an agreement called Schedule D (15), which provided (29):

> "Dr. DeBothezat further agrees that, provided and while said agreement [*i.e.*, the main contract] is in force and while he is in the employ of the Metals Corporation, *and in any other event for five years after the date of the termination of such employment*, he will not, directly or indirectly, engage in the busi-

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[5] See, *e.g.*, *Eskimo Pie Corp.* v. *National Ice Cream Co.*, 26 F. 2d 901 (6 Cir.); *Picard* v. *United Aircraft Corp.*, 128 F. 2d 632, 637 (2 Cir.), cert. den. 317 U. S. 651; *Pennington Engineering Co.* v. *Houde Engineering Corp.*, 136 F. 2d 210, 216 (2 Cir.); *Measurements Corp.* v. *Ferris Instrument Corp.*, 159 F. 2d 590, 593 (3 Cir.); *Miehle Printing Press & Mfg. Co.* v. *Publication Corp.*, 166 F. 2d 615, 618 (7 Cir.); *Conmar Products Corp.* v. *Universal Slide Fastener Co., Inc.*, 172 F. 2d 150, 156 (2 Cir.); *De Cew* v. *Union Bag & Paper Corp.*, 57 F. Supp. 388, 403-404.

> ness of manufacturing or selling fans or impellers that are competitive with any products manufactured or manufacturable pursuant to or under any of the inventions, applications or Letters Patent referred to in said agreement."

Thus if the parties intended to prevent Metals from making fans, after termination of the contract, apt words lay right at hand. They had only to say that "after the termination of this contract, Metals will not, directly or indirectly, engage in the business of manufacturing or selling fans or impellers." They said nothing of the sort.

4. Petitioner relies on the following sentence (23):

> "Metals Corporation further agrees that the New Company will not engage in the manufacture and sale of any products which compete with the Products to be manufactured and sold hereunder."[6]

This covenant manifestly was intended to prevent diminution of the royalties which petitioner would receive, while the contract lasted, on the sale of the Products made under the agreement. Of course, like every other provision in the contract not specifically preserved after termination, this covenant dies with the contract, for "after such termination all parts of the contract would cease to have further operation." *Johnson* v. *Union Switch & Signal*

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[6] "Products" is a word of art in the contract, designating all fans and other products made under Dr. DeBothezat's inventions (8). "New Company" means "a new corporation to be formed, under the name of DeBothezat Impeller Corporation or such other name as Metals Corporation may select, hereinafter referred to as the New Company" (21-22). It is utterly different from Metals.

*Co.*, 29 N. E. 964, 965, reported as memo only in 129 N. Y. 653.[7]

Indeed, the covenant cannot apply after termination. No "Products" could "be manufactured and sold hereunder" after termination of the contract, and no "products" could "compete with" such Products thereafter.

Thus petitioner is forced to rewrite the covenant by adding to, and changing, its language:

> "Metals Corporation further agrees that, *after termination of this agreement, Metals Corporation* will not engage in the manufacture and sale of any products *identical with or competitively similar* to the Products *which were formerly* to be manufactured and sold hereunder."

That is not construction; it is complete revision.

Little need be added to the Court of Appeals' analysis. After termination of the contract, Metals "could not further proceed *under* it," *Hyatt* v. *Ingalls*, 124 N. Y. 93, 105, and "cannot be said to be manufacturing *under* the contract" *Schalkenbach* v. *National Ventilating Co.*, 129 N. Y. App. Div. 389, 393. "Any future manufacture of the patented article could not be *under* the license," *Saltus* v. *Belford Co.*, 133 N. Y. 499, 504, and articles falling within the patents would be made "not *under* the patent but in hostility to it," *Marston* v. *Swett*, 82 N. Y. 526, 534.

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[7] For other applications of this principle to royalty contracts see, *e.g.*, *K-W Ignition Co.* v. *Temco Electric Motor Co.*, 243 Fed. 588, 590 (6 Cir.), cert. den. 260 U. S. 746; *Goodwin* v. *Camp*, 295 Fed. 785, 791-792 (6 Cir.); *Eskimo Pie Corp.* v. *National Ice Cream Co.*, 26 F. 2d 901, 902 (6 Cir.); *Blain* v. *Sullivan-Waldron Products Co.*, 78 F. Supp. 661, 662, affd. on the opinion below, 172 F. 2d 221 (3 Cir.); *Wilde* v. *Smith*, 8 Daly (N. Y.) 196, 208.

In *Stimpson Computing Scale Co.* v. *W. F. Stimpson Co.*, 104 Fed. 893 (6 Cir.),[8] the licensee had "the right to determine this contract, and their obligation thereunder . . . by giving six months' notice in writing . . . of their intention to discontinue the manufacture and sale of such scales under this contract." The court held that, after the notice was given, the licensee had a perfect right to keep making the same scales as before unless he infringed some outstanding patent. It said (p. 895):

> "We think it gave the licensee the right to determine the contract by giving the prescribed notice of its intention not to proceed further under the contract after the time stated in the notice shall expire. *The manufacture and sale of such scales 'under this contract' would then cease. Effect must be given to all the language of a contract where possible, and we see no difficulty in applying this rule of construction here. There was nothing in the contract which imposed a further disability upon either party after it should have been brought to an end by the exercise of a right reserved therein.*"

5. Petitioner argues that it would have been "foolish" to "have given away its business . . . on such terms" (Pet. Br., p. 7). The short answer is that Metals would have been doubly foolish to have given up, forever, its right to make fans except under the contract, for the dubious privilege of trying to revive the bankrupt, moribund DeBothezat enterprise. But the argument is unsound.

Petitioner gave nothing away. It made an excellent bargain under which it has received over $250,000 without

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[8] This case was recently cited in *Tams-Witmark Music Library, Inc.* v. *New Opera Company, Inc.*, 298 N. Y. 163, 173.

lifting a finger. It made sure that on termination it would both get back the DeBothezat patents and acquire new patents which it had no part in devising. Thus its competitive position would not merely be maintained but enhanced. To compensate for any possible loss of the "knowledge of its business" it ensured itself access to all Metals' "books and records" for a year after termination. Any possible "impediment" which might be "caused by the interruption of its operations"—which had all but ended anyhow—was evidently deemed trifling compared to the manifold benefits which petitioner expected to (and did) derive from the contract. The plea for sympathy is simply specious.

6. How misguided is petitioner's reliance on *Cammack* v. *Slattery & Bro., Inc.*, 241 N. Y. 39, was pointed out below (640-641).

Cammack owned an unpatented invention for radiators which he had never disclosed. While he kept it to himself no one could use it. To induce him to disclose it, Slattery agreed to pay him "a royalty of ten per cent of the selling price of all . . . radiators, manufactured by them, their heirs, assigns or successors" (209 App. Div. 877, 878). That obligation had no time limit. The contract had no termination clause. Slattery sent a notice saying it was terminating, but kept on making the radiators. Of course it was held liable for the promised royalties.

(a) The lower courts thought that Slattery could not terminate. The Court of Appeals preferred to say that Slattery had "elected to continue to operate" under the contract (p. 47). "If we assume, as I think is the fact,

that defendant might have terminated its contract at any time and did serve purported notices of intention so to do, the answer is that *it did not as a matter of fact terminate the contract* but continued to manufacture and sell radiators" (p. 45).

But here the contract expressly provides how and when it can be terminated. After one year Metals can terminate merely by sending a notice of termination. As pointed out in *New York Telephone Co.* v. *Jamestown Telephone Corp.*, 282 N. Y. 365, where (as here) the contract expressly confers the right to terminate on notice, the *Cammack* case is quite inapplicable. There notice of intention to terminate was "accompanied by acts inconsistent with any intention to terminate" (p. 373), and, as Chief Judge Lehman added (pp. 373-374):

> "Notice of intention to terminate a contract is an empty gesture where it appears that the intention is to terminate only the obligation imposed by the contract and not the right to benefits derived from the contract, for the contract gives no right of partial revocation. So we held in that case, but *the rule has no application here for here on the date when the notice became effective according to the terms of the contract, nothing had been said or done which rendered the notice ineffective. Then the contract was at an end.*"

So here, when the notice becomes "effective according to the terms of the contract," the entire agreement is "at an end"—both the "obligation imposed by the contract" and the "benefits derived from the contract."

(b) Since the *Cammack* contract was silent on termination, the court had to speculate what the parties prob-

ably would have said on that subject if they had considered it. It thought it was fair to imply that Slattery should not be compelled to make the radiators but, if it chose to do so, should abide by its unlimited promise to pay royalties "such as it had agreed to pay" (241 N. Y., at p. 45). Otherwise Slattery would keep everything and give up nothing.

Unlike Slattery, however, Metals never "agreed to pay" royalties forever. On the contrary, the obligation to pay royalties ceases on termination: "Metals Corporation shall not be liable for any payment . . . accruing after the period ending upon such termination" (19). That language would be pointless if Metals were precluded from making fans on termination. It makes it plain that Metals is free to make fans after termination without incurring any contractual liability to petitioner.

(c) Furthermore, Metals does not keep everything and give up nothing on termination. It is absurd to argue that Metals claims "a supposed alternative to pay or not to pay for what has been received" (Pet. Br., p. 17).

On termination Metals surrenders its immunity from infringement suits, gives up the DeBothezat name, and so on. It also loses the benefit of petitioner's continuing covenants to disclose new inventions (11) and to refrain from competition (23). In fact, Metals relinquishes "benefits" which were not "derived from the contract," *e.g.*, its improvement patents.

Thus this contract—unlike the *Cammack* agreement—specifies the "benefits" which Metals must relinquish on termination. Implications as to what the parties might have thought equitable, if they had been silent, are therefore beside the point. The contract itself specifies exactly what rights Metals must equitably give up on termination.

(d) Finally, the right which Slattery was trying to exercise was truly a "benefit derived from the contract" —the common-law right to use an undisclosed secret invention. But the rights which Metals wants to enjoy after termination are not "derived from the contract" at all.

Metals wishes to make fans which do not embody the invention of any DeBothezat patent. Metals always had that right; it did not come from the contract. It also wishes to make fans embodying the inventions of expired patents. Far from being derived from the contract, that right is conferred by the patent laws.[9]

In short, the *Cammack* case is wholly inapposite from start to finish. It involved utterly different questions under an utterly different contract.

The agreement is quite clear—Metals is free to make fans, after termination, which do not infringe patents then subsisting.

## POINT II

**The four "defenses" pleaded by petitioner were clearly insufficient.**

Certain matters having nothing to do with Metals' right to terminate, or to make unpatented fans after termination, were pleaded by petitioner both as counterclaims and "defenses." At a pre-trial conference the District Court held that these counterclaims were insufficient as "defenses" (75-80). The Court of Appeals agreed (641-645). Petitioner cites no case even indicating that applicable local decisions are in conflict.

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[9] *Scott Paper Co.* v. *Marcalus Mfg. Co.,* Inc., 326 U. S. 249, 255-256.

### A. The Four "Defenses."

Petitioner's discussion goes so far afield that it is noteworthy to see just what its "defenses" actually said.[10]

No "irreparable injury" was charged—though it would be immaterial if alleged. On the contrary, these four "defenses" alleged specific money damages. Nowhere was it averred that the acts charged would "impair" petitioner's "capacity to resume operations" (Pet. Br., p. 21). Certainly there was no allegation that the usual remedies provided by law would be ineffectual to afford complete relief.

1. The second "defense" alleged that Metals had "converted to its own use or destroyed the leased equipment referred to in paragraph Third and Schedule B of said agreement of April 3, 1934, to the damage of defendant in the amount of $100,000" (56), and argued that Metals should not be allowed to terminate "until [it] turns over to defendant equivalent equipment" (56-57).

While the contract does *not* require Metals "to return the leased machinery in the event of cancellation" (Pet. Br., p. 21)—on the contrary, it was to be redelivered in

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[10] Petitioner faintly suggests that sufficiency of the "defenses" should not have been resolved at a pre-trial conference (Pet. Br., p. 20). It is enough to say that (a) it is completely immaterial that the "defenses" were held insufficient at a pre-trial conference, rather than at motion part or at the trial, (b) of course the sufficiency of "defenses" may be determined at a pre-trial conference, as shown by the cases cited below (72) and in 3 Moore's Federal Practice (2d Ed. 1948), pp. 1105, 1111, 1121-1123, and (c) the District Court properly acted under Rule 16 to simplify the issues, speed the trial and lift the case from the procedural morass in which petitioner had bogged it down (67-69, 71-72).

1940 unless Metals bought it for $1 (13-14)[11]—it would make no difference if it did. The leased equipment was second-hand even in 1934. It was bound to wear out. In 1940 it could be bought for $1. Actually petitioner had so little interest in the leased equipment that it did not sue until 1948. If the worn-out remnants would now have any useful value, damages would afford petitioner complete relief.

2. The third "defense" avers that at some unstated time, by some unstated act, Metals "violated its contractual obligation to use the name DeBothezat in the promotion and sale of said products to the damage of defendant in the amount of $50,000" (57).

For all that appears, the name—as a result of Metals' extensive use of it (603; Exs. D, W)—is a thousand times better known now than in 1934. But if petitioner ever supposed that Metals was not using the name as required, it had only to apply for injunctive relief. None was sought in the answer. None has been sought to date.

3. Petitioner suggests that the certified audits alluded to in its fourth "defense" were intended to enable it to "plan in advance its campaign to reestablish its business" (Pet. Br., p. 21). Actually the audits have nothing to do with "reestablishment" of petitioner's activities after termination.[12] They simply enabled petitioner to have

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[11] Moreover, Metals has no duty to redeliver on termination "any part of such plant and equipment which it shall have used or disposed of or which shall have been destroyed or discarded, whether or not by [its] negligence or fault" (20).

[12] That subject is taken care of by the totally different provision affording petitioner access, for one year after termination, to Metals' "books and records" (20).

Metals' certified public accountants check, annually, on Metals' own monthly statements of "net sales and receipts from licenses" (18).

But if petitioner was dissatisfied with the audits prepared by Metals' certified public accountants, and thought that the $10,000 damages claimed (57) would not afford sufficient relief, it had ample remedies at hand. It had only to sue to compel fuller reports to be furnished. Or petitioner could—and still can—have an audit made by independent accountants (18). No such relief has ever been sought.

4. The sixth "defense" merely says that Metals "failed to use its best efforts to promote the sale of said products, to defendant's damage in the amount of $500,000" (58). It does not even claim that the unrevealed acts affect Metals' right to terminate.

Before the contract, petitioner's sales had dwindled to $58,000 in 1933, and it was steadily losing money (F8, 608). Under the contract its royalties have been paid on net sales which, for years, have been over $1,000,000 (605). But if petitioner had ever supposed that Metals was not using its best efforts to promote sale of the Products, it had ample legal measures to remedy the situation.

Indeed, if petitioner had ever thought—as it now argues—that the supposed breaches were of any consequence, it would have taken prompt action to remedy the situation long ago. As far back as 1946, it knew that Metals intended to terminate and keep on in the fan business (F33-34, 617). Petitioner did nothing. When this action was brought, indeed, it claimed that there was no dispute to resolve (631-632).

Certainly, if the imaginary evils which petitioner now conjures up had been regarded as of moment, at the very least it would have asked for injunctive relief when its answer was filed. It chose not to do so. Over two years have gone by since then. No injunctive relief has yet been sought.

The assertions that petitioner "has been here stayed from pressing its counterclaims" (Pet. Br., p. 24), and that the courts enjoined it "from seeking equitable relief" (Pet. Br., p. 26), are unworthy. No such stay or injunction has ever been granted or even applied for. The decision not to invoke the usual equitable remedies was petitioner's own. Doubtless it thought that its inaction would lend some color to its present arguments.

Possible breaches of the contract afford no ground for revising the contract to extinguish or limit Metals' absolute right to terminate and keep on in the fan business.

### B. The Acts Charged Do Not Affect Metals' Right to Terminate.

An absolute power of termination is not, as petitioner seems to think, a reward for due performance. It is simply "a right given by contract to limit its life by notice that the contract will terminate at a time fixed by the notice." *New York Telephone Co.* v. *Jamestown Telephone Corp.*, 282 N. Y. 365, 372.

The contract specifies what happens if Metals "shall fail or neglect to keep or perform any of the terms, covenants and conditions of this agreement on its part to be performed" (20). Breaches do *not* suspend or extinguish

Metals' right to terminate. Petitioner may notify Metals "wherein it is claimed to have been in default" (21). If Metals does not dispute the default, and it continues for thirty days, petitioner may "terminate this agreement and all rights granted hereunder" (21).[13] Clearly all Metals' "rights granted hereunder" (including its absolute right to terminate) remain alive, despite breaches, until the contract is terminated by the prescribed procedure.

Thus—even though possible breaches by Metals were contemplated when the contract was executed—the "defenses" try to rewrite the contract by inserting limitations on Metals' right to terminate which the parties chose not to include.

Petitioner cites no New York case justifying such drastic surgery on a contractual right of termination.

1. *Cammack* v. *Slattery & Bro., Inc.*, 241 N. Y. 39 (Pet. Br., p. 22), is utterly irrelevant. The court did not even suggest that a person would be debarred from exercising a right to terminate, expressed by contract, because of his supposed prior breaches. It merely held, as already seen, that defendant had "elected to continue to operate" under the contract (p. 47).

2. *Lipman* v. *Niagara Fire Ins. Co.*, 121 N. Y. 454 (Pet. Br., p. 23), contains an *obiter dictum* that a company which has been paid to insure against a risk cannot cancel the policy when it knows that the risk is on the very verge of maturing and the insured cannot obtain other insurance

[13] If Metals disputes the claimed default in good faith, the thirty days do not "run until a final determination against such contention shall have been made by a tribunal of competent jurisdiction" (21).

before it does mature.[14] Obviously the dictum has nothing to do with this case. Besides, in a later decision an insurance company was held free to cancel the policy, even though it had previously breached its obligations, and even though termination would cause the insured irreparable injury because he had become uninsurable. *Jones* v. *Commercial Travelers' Mut. Accident Assn.*, 201 N. Y. 576, where the Court of Appeals refused to apply the *Lipman* dictum, which had been relied on by the lower court, 114 N. Y. S. 589.

3. *Friedman* v. *Connecticut General Life Ins. Co.*, 251 App. Div. 292, leave to appeal denied, 275 N. Y. 649 (Pet. Br., p. 23), far from supporting petitioner, followed the *Jones* case and allowed the insurance company to cancel the policy.

Actually petitioner's argument is contrary to established principles of local law. Repeatedly the New York courts have refused to make an entirely new agreement for the parties by importing restrictions into an absolute power to terminate.

Thus, the right to terminate may be exercised regardless of purpose or motive,[15] or the serious effect of cancella-

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[14] The point did not arise in the *Lipman* case at all. Indeed, the court held that the termination notice was perfectly valid and effective when given, although it afforded the insured no time at all to obtain new insurance (121 N. Y., at p. 461).

[15] See *e.g.*, *International Life Ins. & Trust Co.* v. *Franklin Fire Ins. & Trust Co.*, 66 N. Y 119, 123; *Friedman* v. *Connecticut General Life Ins., Co.*, 251 App. Div. 292, 293, leave to appeal denied, 275 N. Y. 649; *Biber Bros. News Co., Inc.* v. *New York Evening Post, Inc.*, 144 Misc. 405, 408; *Okst* v. *Metropolitan Life Ins. Co.*, 50 N. Y. S. 2d 919, 922; *MacDonald Bros., Inc.* v. *Halston*, 63 N. Y. S. 2d 909, 911-912.

tion on the other contracting party.[16] Similarly, breach by a party does not affect his exercise of that right.[17] Thus the measure of damages for breach by wrongful repudiation of a contract is only the amount which would have been payable thereunder if the right to terminate had been duly exercised.[18] That is true even if suit based on a prior breach was pending when the wrongful repudiation occured.[19] Nor is exercise of the right to terminate affected by the fact that damages for existing breaches are incapable

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[16] See, *e.g.*, *Chatham Plan, Inc.* v. *Clinton Trust Co.*, 246 App. Div. 498, 499, app. dismissed, 272 N. Y. 497; *Stanley* v. *Chris-Craft Corp.*, 21 N. Y. S. 2d 898, affd. without opinion, 259 App. Div. 1036; *Randall* v. *Michelin Tire Co.*, 137 Misc. 570, 571.

[17] In fact, *Mason* v. *Electrol, Inc.*, 292 N. Y. 482, held that, where the agreement so purports to provide, the breach can actually result in the termination of the contract. The court rejected the argument that the breaching party should be "estopped from asserting its own default as a ground for extinguishment of its obligation" (p. 487).

[18] So, if an employer reserves a right to terminate on notice, a wrongfully discharged employee can recover only the wages payable during the period of notice. See, *e.g.*, *Watson* v. *Russell*, 149 N. Y. 388, 392; *Barth* v. *Addie Co., Inc.*, 271 N. Y. 31, 35; *Gallo* v. *Mayor, etc. of New York*, 15 App. Div. 61, 64; *Inglesi* v. *Hickson, Inc.*, 195 App. Div. 585, 587; *Robertson* v. *Charles Frohman, Inc.*, 198 App. Div. 782, 787, app. dismissed, 233 N. Y. 530; *Beck* v. *Fybern Holding Corp.*, 238 App. Div. 25, 28; *Bitterman* v. *Gluck*, 256 App. Div. 336, 337. The rule is not confined to employment contracts, but applies to all contracts. *Warth* v. *Liebovitz*, 179 N. Y. 200, 204-205; *Chatham Plan, Inc.* v. *Clinton Trust Co.*, 246 App. Div. 498, 500, app. dismissed, 272 N. Y. 497.

[19] "It is hard to see how that circumstance could add to the value of the contract to the plaintiff or diminish a privilege reserved by the contract to the defendant." *Barth* v. *Addie Co., Inc.*, 272 N. Y. 31, 36; see also *Bogy* v. *Berlage*, 265 App. Div. 249, 251.

of precise computation and therefore irreparable.[20] Likewise it is immaterial that termination by the breaching party would cause irreparable damage.[21]

These rules are perfectly sensible and just. The law provides a contracting party with adequate remedies if he thinks a breach of contract has occurred. Courts cannot appropriately rewrite contracts to deprive a party of a right to terminate without which he would never have made the agreement in the first place. One reason, indeed, why a party reserves the right to terminate is to enable him to end his continuing liability under the contract and thus protect himself against new claims of additional breaches.

Moreover, petitioner's argument runs afoul of a more general principle of New York law. A party affected by a breach of a contract has a choice. He may keep the contract alive and sue for damages and injunctive relief. Or, if the breach is substantial, he may terminate the contract. But he cannot keep part of the contract alive and terminate

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[20] *United States Aluminum Co.* v. *Calvert Lithographing Co.*, 49 Misc. 491, 492 (App. Term), breach by unauthorized misuse of patented inventions; *Motion Picture Trade Directory Co., Inc.* v. *Wallace*, 186 N. Y. S. 80, 82 (App. Term), affd. without opinion, 197 App. Div. 938, breach by failure to return special List deemed so precious that contract provided that defendant had to return it before it could terminate.

[21] *Jones* v. *Commercial Travelers' Mut. Accident Assn.*, 201 N. Y. 576, *supra*, p. 24. The same rule underlies the principle that "Specific performance will not be decreed against a party who has the power of terminating his contractual duty," Restatement of the Law of Contracts, §377; *Wilcox* v. *Williams*, 92 Hun (N. Y.) 250, 252; *Hart* v. *Hart*, 188 App. Div. 283, 284-285. As this court tersely put it, "A court of equity never interferes where the power of revocation exists." *Southern Express Co.* v. *Western North Carolina Rd. Co.*, 99 U. S. 191, 200.

the rest. If he keeps it alive at all, it "exists for the benefit of both parties;" he can no longer use the breach defensively, and his sole "remedy is the recovery, in counterclaim or action, of [his] damages." [22]

Here, despite the alleged breaches, petitioner did not terminate but insisted (and still insists) that the contract be kept alive. Consequently all provisions of the contract —the termination clause included—remain in full force and effect. The decision below to that effect was entirely correct.

### C. The Acts Charged Do Not Affect Metals' Right to Make Fans After Termination.

Even more fanciful is petitioner's contention that the alleged breaches affect Metals' right to make, after termination, fans infringing no subsisting patent.

No case is cited which supports this argument. *Russell Hardware & Implement Mfg. Co.* v. *Utica Drop Forge & Tool Co.,* 195 N. Y. 54 (Pet. Br., pp. 24-25), is really opposed to it. There the court held that the exclusive license of a patented staple puller should be cancelled because of the licensee's acts, and it enjoined the licensee from exercising any further rights under the contract. But the licensee was *not* enjoined from making any article whatever

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[22] The quotations are from *Rosenthal Paper Co.* v. *National Folding Box & Paper Co.,* 226 N. Y. 313, 324. For other examples, see *Dalzell* v. *Fahys Watch Case Co.,* 138 N. Y. 285, 290; *Anheuser-Busch Ice & Cold Storage Co.* v. *Reynolds,* 221 App. Div. 174; *Thuman* v. *Clawson & Wilson Co.,* 211 App. Div. 507, 510; *Schulder* v. *Edward R. Ladew Co., Inc.,* 178 App. Div. 458, 462; *Pitts* v. *Jameson,* 15 Barb. (N. Y.) 310, 317.

(patented or unpatented) after the contract ended.[23] On the contrary, the court said that the "*only* adequate relief . . . was to terminate the contract and, thus, to cancel all rights to manufacture *under* the patents;" "annulment of the contract proper" was "the *only* just remedy to be applied" (p. 61).

Numerous other New York cases are contrary to petitioner's contention. *Hyatt* v. *Ingalls,* 124 N. Y. 93, was cited in the *Russell* case (195 N. Y., at p. 62). There a license to make goods under plaintiffs' patent was judicially cancelled because defendants had failed to pay royalties and report sales. Because of these grave breaches, the trial court enjoined defendants from making the patented articles after cancellation. On appeal the injunction was dissolved. It was erroneous because it "restrained the licensees perpetually from manufacturing the patented article without, in express terms, merely forbidding it under the license." *Mark* v. *Hyatt,* 135 N. Y. 306, 309. "Any future manufacture of the patented article could not be under the license judicially rescinded, and must of necessity be either lawful or an infringement over which the court could have no jurisdiction." *Saltus* v. *Belford Co.,* 133 N. Y. 499, 504.

That is settled New York law. Even when the breaches by one party are so serious that the court will cancel the contract, he will not be prevented from making any goods

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[23] The injunction restrained defendant "from further exercise of any of the rights in the business, trade and good will of the Russell staple puller [*i.e.,* plaintiff's patented device], received by it *under said contract or pursuant thereto,* and from using any of the cuts, illustrations and testimonials of the Russell stape puller, *acquired of plaintiff or pursuant to said contract,* in advertising or selling a staple puller" (Record on appeal, fols. 331-333).

whatever after the contract is ended. Once the contractual relationship ends, in short, both parties are equally free to make any and all goods which do not infringe valid patent rights.[24] The Court of Appeals correctly so held.

## CONCLUSION

No reason exists why this Court should review the case. The petition is singularly without merit and should be denied.

Dated: New York, N. Y., May 17, 1950.

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[24] Other New York cases to the same effect are cited *supra*, notes 3 and 4. For other examples, see *Hirsh & Schofield, Inc.* v. *Gusmer*, 179 App. Div. 347, 353, affd. without opinion, 226 N. Y. 649; *Redican* v. *Interchangeable Magnetic Sign Co., Inc.*, 162 App. Div. 803, 805; *Lamont, Corliss & Co.* v. *Bonnie Blend Chocolate Corp.*, 135 Misc. 537, 539.